Fixed Income Clearing Corporation

Audited Financial Statements as of and for the Years Ended December 31, 2015 and 2014, and unaudited for the Three Months Ended December 31, 2015 and 2014

FIXED INCOME CLEARING CORPORATION

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FIXED INCOME CLEARING CORPORATION

STATEMENTS OF FINANCIAL CONDITION
(In thousands, except for share data)

	As of December 31, 2015	As of December 31, 2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 215,440	$ 107,026
Accounts receivable	32,581	27,279
Clearing fund:		
Cash deposits	7,878,557	8,638,946
Investments in marketable securities	100,000	200,000
Other deposits, at fair value	7,537,070	7,374,074
Other participants' assets	2,783	2,582
Other current assets	5,795	1,045
Total current assets	15,772,226	16,350,952
NON-CURRENT ASSETS		
Premises and equipment - net of accumulated depreciation of $17,600 and $28,367 on December 31, 2015 and 2014, respectively	740	761
Intangible assets - net of accumulated amortization of $99,439 and $85,268 on December 31, 2015 and 2014, respectively	21,662	27,002
Total non-current assets	22,402	27,763
TOTAL ASSETS	$ 15,794,628	$ 16,378,715
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Loan payable to DTCC	$ 52,000	$ -
Accounts payable	1,864	3,077
Clearing fund:		
Cash deposits	7,978,557	8,838,946
Other deposits, at fair value	7,537,070	7,374,074
Payable to participants	2,783	2,582
Other current liabilities	-	1,144
Total current liabilities	15,572,274	16,219,823
NON-CURRENT LIABILITIES		
Other non-current liabilities	8,203	5,411
Total non-current liabilities	8,203	5,411
Total liabilities	15,580,477	16,225,234
COMMITMENTS AND CONTINGENCIES (Note 10)		
SHAREHOLDERS' EQUITY		
Common stock, $0.50 par value - 105,000 shares authorized, 20,400 shares issued and outstanding	10	10
Paid-in capital	86,617	26,617
Retained earnings	127,524	126,854
Total shareholders' equity	214,151	153,481
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 15,794,628	$ 16,378,715

The Notes to the Financial Statements are an integral part of these statements.

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF INCOME
(In thousands)

	For the years ended December 31, 2015	2014
REVENUES:		
Clearing services	$ 171,119	$ 158,611
EXPENSES:		
Employee compensation and related benefits	68,604	63,437
Information technology	14,578	14,471
Professional and other services	60,360	54,781
Occupancy	6,022	6,213
Depreciation and amortization	15,416	15,815
Other general and administrative, net	4,616	2,382
Total expenses	169,596	157,099
Total operating income	1,523	1,512
NON-OPERATING INCOME:		
Interest income	10,281	6,495
Refunds to participants	(9,591)	(6,297)
Interest expense	(558)	-
Total non-operating income	132	198
Income before taxes	1,655	1,710
Provision for income taxes	985	798
Net income	$ 670	$ 912

The Notes to the Financial Statements are an integral part of these statements.

FIXED INCOME CLEARING CORPORATION

UNAUDITED STATEMENTS OF INCOME
(In thousands)

	For the three months ended December 31, 2015	2014
REVENUES:		
Clearing services	$ 42,162	$ 42,554
EXPENSES:		
Employee compensation and related benefits	16,990	12,417
Information technology	4,275	3,378
Professional and other services	16,999	15,893
Occupancy	1,776	1,587
Depreciation and amortization	3,440	4,048
Other general and administrative, net	1,762	816
Total expenses	45,242	38,139
Total operating (loss)/income	(3,080)	4,415
NON-OPERATING INCOME (EXPENSE):		
Interest income	3,045	1,861
Refunds to participants	(4,644)	(1,818)
Interest expense	(206)	-
Total non-operating (loss)/income	(1,805)	43
(Loss)/ income before taxes	(4,885)	4,458
Provision for income taxes	(2,031)	1,898
Net (loss)/income	$ (2,854)	$ 2,560

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FIXED INCOME CLEARING CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands)

	Common Stock	Paid-In Capital	Retained Earnings	Total Shareholders' Equity
BALANCE - December 31, 2013	$ 10	$ 26,617	$ 125,942	$ 152,569
Net income	-	-	912	912
BALANCE - December 31, 2014	$ 10	$ 26,617	$ 126,854	$ 153,481
Capital contribution from DTCC	-	60,000	-	60,000
Net income	-	-	670	670
BALANCE - December 31, 2015	$ 10	$ 86,617	$ 127,524	$ 214,151

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FIXED INCOME CLEARING CORPORATION

STATEMENTS OF CASH FLOWS
(In thousands)

	For the years ended December 31, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 670	$ 912
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	15,416	15,815
Impairment on intangible assets	139	1,414
Net premium amortized on investments in marketable securities	33	(130)
Deferred income taxes	1,494	(3,228)
Changes in operating assets and liabilities:		
Increase in accounts receivable	(5,335)	(14,787)
(Increase) decrease in other assets	(5,795)	1,794
Decrease in accounts payable	(1,213)	(1,783)
Increase in other liabilities	1,199	1,400
Increase in participants fund deposits	(100,000)	-
Net cash (used in) provided by operating activities	(93,392)	1,407
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities of investments in marketable securities	200,000	500,000
Purchases of investments in marketable securities	(100,000)	(500,000)
Purchases of software	(10,194)	(10,288)
Net cash provided by (used in) investing activities	89,806	(10,288)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds received on loan from DTCC	55,000	-
Principal payments on loan from DTCC	(3,000)	-
Capital contribution from DTCC	60,000	-
Net cash provided by financing activities	112,000	-
Net increase (decrease) in cash and cash equivalents	108,414	(8,881)
Cash and cash equivalents - Beginning of year	$ 107,026	$ 115,907
Cash and cash equivalents - End of year	$ 215,440	$ 107,026
SUPPLEMENTAL DISCLOSURES:		
Cash income taxes paid - net of refunds	$ 6,019	$ 832
Cash interest paid	$ 421	$ -

The Notes to the Financial Statements are an integral part of these statements.

1. BUSINESS AND OWNERSHIP

Fixed Income Clearing Corporation (FICC or the Company), a clearing agency registered with the U.S. Securities and Exchange Commission (SEC), provides various services to members of the government and mortgage-backed securities markets (Participants), consisting principally of automated real-time trade comparison, netting, settlement, trade confirmation, risk management and electronic pool notification. FICC has two Divisions, the Government Securities Division (GSD) and the Mortgage-Backed-Securities Division (MBSD).

FICC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (DTCC). Other subsidiaries of DTCC include The Depository Trust Company (DTC), National Securities Clearing Corporation (NSCC), Omgeo LLC, DTCC Deriv/SERV LLC, DTCC Solutions LLC, Business Entity Data, B.V. and AVOX Limited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Use of Estimates. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Management makes estimates regarding the collectability of receivables, the outcome of litigation, the realization of deferred taxes, the recognition of unrecognized tax benefits, fair value measurement, and other matters that affect the reported amounts. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could materially differ from those estimates.

Cash and Cash Equivalents. All highly liquid investments purchased with an original maturity of three months or less at the date of acquisition are classified as cash and cash equivalents. Cash equivalents consist primarily of highly liquid investments in deposits held in banks.

Investments in Marketable Securities. All marketable securities are classified as held-to-maturity and are recorded at amortized cost. The Company intends and has the ability to hold all held-to-maturity securities to maturity. The Company does not intend to reclassify any amount of held-to-maturity investments to available-for-sale or trading investments.

The Company performs a periodic review of its investment portfolio for impairment. A debt security is considered impaired if its fair value is less than its carrying value. The decline in fair value is determined to be an other-than-temporary impairment if (a) the Company has the intent to sell the impaired debt security or (b) it is more likely than not the Company will be required to sell the security before the recovery of the amortized cost in which case the carrying value is adjusted. Additionally, regardless of whether there is intention to sell or a requirement to sell, if the Company does not expect to recover the entire amortized cost basis, the impaired debt security is considered an other-than-temporary impairment. Any unrealized loss deemed other-than-temporary is included in current period earnings. The Company does not intend to sell those securities and it is not more likely than not the Company will have to sell.

Fair Value Measurements. The guidance related to “Fair Value Measurements” included in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820 (ASC 820) defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value.

Valuation Hierarchy. ASC 820 established a three-level valuation hierarchy for disclosure of fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The three levels of the fair value hierarchy are described as follows:

> Level 1 — Inputs to the valuation methodology are unadjusted quoted market prices for identical assets or liabilities in active markets as of the valuation date.
>
> Level 2 — Inputs to the valuation methodology are other than unadjusted quoted market prices for similar assets and liabilities in active markets, which are either directly or indirectly observable as of the valuation date or can be derived principally from or corroborated by observable market data.
>
> Level 3 — Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Financial Instruments Measured at Fair Value. The Company has established processes for determining fair values. Fair value is based upon quoted market prices in active markets, where available. Where quotes from recent exchange transactions are not available, the Company determines fair values based on discounted cash flow analyses, and comparable pricing of similar instruments. Discounted cash flow analyses are dependent upon estimated future cash flows and level of interest rates.

Financial Instruments Not Measured at Fair Value. The carrying amounts of financial instruments (i.e., monetary assets and liabilities) are determined under different accounting methods. However, active markets do not exist for a significant portion of these instruments. For financial instruments where quoted prices for identical assets and liabilities in active markets do not exist, the Company determines fair value based on discounted cash flow analyses and comparable pricing of similar instruments.

The Company uses recently executed transactions, other observable market data such as exchange data, broker/dealer quotes, third-party pricing vendors and aggregation services for determining the fair values of financial instruments. The Company assesses the external sources and their valuation methodologies to determine if the external providers meet the minimum standards expected of a third-party pricing source. Pricing data provided by approved external sources are evaluated using a number of approaches to ensure that the highest-ranked market data source is used to validate fair value of financial instruments.

Accounts Receivable. Accounts receivable are stated at cost, net of an allowance. The Company establishes an allowance for doubtful accounts for accounts receivable to ensure the Company has not overstated receivable balances due to potential uncollectibility. The Company determines the need for an allowance based on a variety of factors, including the length of time receivables are past due, macroeconomic conditions, historical experience and the financial condition of customers and other debtors.

Clearing Fund. Margin deposits and participant contributions are maintained within the Clearing fund on the Statements of Financial Condition due to the benefits and risk ownership being incurred to the Company. Deposits and contributions may be in the form of cash and cash equivalents and securities. These deposits may be applied to satisfy obligations of the depositing participant, other participants, or the Company as provided in the Company rules.

Cash Deposits and Investments in Marketable Securities. Deposits may be invested in reverse repurchase agreements, bank deposits, money market funds and direct obligations of the U.S. Government. Reverse repurchase agreements provide for FICC's delivery of cash in exchange for securities having a fair value that is at least 102% of the amount of the agreements. Securities purchased under reverse repurchase agreements are typically U.S. Treasury and agency securities. Reverse repurchase agreements are recorded at the contract amounts. Any interest earned on these investments is accrued and is included within Interest income in the Statements of Income. Any amounts that were passed through to Participants are included as Refunds to Participants in the Statements of Income.

Other Deposits, at Fair Value. Securities may include U.S. Treasury Securities, U.S. agency-issued debt securities, and U.S. agency residential mortgage-backed securities. Any interests earned on these investments is accrued and is included within Interest income in the Statements of Income. Any amounts that were passed through to Participants are included as Refunds to Participants in the Statements of Income.

Premises and Equipment. Premises and equipment are stated at cost, net of accumulated depreciation. Routine maintenance, repairs and replacement costs are expensed as incurred and improvements that appreciably extend the useful life of the assets are capitalized. When equipment is sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income. Premises and equipment are reviewed for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable.

Leasehold improvements are amortized using the straight line method over their useful lives or the remaining term of the related lease, whichever is shorter. Furniture and equipment are depreciated over estimated useful lives ranging from five to seven years, using the straight line method. Building and improvements are primarily amortized over 39 years using the straight line method. Depreciation expense for leasehold improvements, furniture and equipment, and buildings and improvements is included in Depreciation and amortization in the accompanying Statements of Income.

Identified Intangible Assets. Identified intangible assets with finite lives are amortized in a pattern consistent with the assets' identifiable cash flows or using a straight line method over their remaining estimated benefit periods if the pattern of cash flows is not estimable. Intangible assets with finite lives are reviewed for possible impairments when events or changed circumstances may affect the underlying basis of the asset.

Capitalized Software. The Company capitalizes eligible costs associated with the acquisition or development of internal-use software projects that provide new or significantly improved functionality. The Company capitalizes projects expected to result in longer-term operational benefits, such as replacement systems or new applications that result in significantly increased operational efficiencies or functionality. Once the software is ready for its intended use, the Company amortizes the capitalized cost on a straight line basis over an estimated useful life of three to five years. All other costs incurred in connection with an internal-use software project are expensed as incurred. Capitalized software is included in Intangible assets on the Statements of Financial Condition.

The Company considers many factors, including estimated future utility to estimate cash flows. Impairments are reviewed annually or more frequently if certain events or circumstances exist. The Company calculates the estimated fair value of finite lived intangible assets using undiscounted cash flows expected to result from the use of intangible assets or group of assets.

Impairment of Long-Lived Assets. The Company evaluates long lived assets for impairment losses when indicators of impairment are present. The Company periodically evaluates the recoverability of long lived assets when events or changes in circumstances indicate the carrying amount of an asset may not be fully recoverable. When indicators of impairment are present, the carrying values of the assets are evaluated in relation to the operating performance and future discounted cash flows of the underlying business. The net book value of the underlying asset is adjusted to its fair value if the sum of the future undiscounted cash flows is less than its book value. Fair values are based on estimates of market prices and assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates, reflecting varying degrees of perceived risk. Impairment losses are included in the accompanying Statements of Income.

The Company considers the following to be important factors which could trigger an event driven impairment review:

- Significant underperformance relative to historical or projected future operating results;
- Identification of other impaired assets within a reporting unit;
- A more likely than not expectation that a reporting unit or a significant portion of a reporting unit will be sold;
- Significant adverse changes in business climate or regulations;
- Significant changes in the manner of use of the acquired assets or the strategy for the Company's overall business or significant negative industry or economic trends.

Revenue Recognition. Revenue is generally recognized as services are rendered. Activities are captured daily and billed on a monthly basis. Interest income is recorded on an accrual basis. The Company's revenue primarily consists of fees generated from clearing services.

Income Taxes. Deferred tax assets and liabilities are reported in Other non-current assets and liabilities, net, on the Statements of Financial Condition and represent the expected future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Valuation allowances are recognized if, based on the weight of available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. It is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by the tax authorities.

Expense Allocations. Substantially, all expenses are recorded at DTCC and are allocated to its subsidiaries including FICC, based upon their use of such goods or services as determined by applicable allocation factors, including headcount, square footage and utilization of technology resources. Accordingly, the expense classifications in the Statements of Income represents allocated expenses, including, Employee compensation and related benefits, Information technology, Professional and other services, Occupancy, Depreciation and amortization, and Other general and administrative expenses.

3. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following on December 31, 2015 and 2014 (in thousands):

	2015	2014
Clearing and transaction fees due from participants	$ 14,002	$ 13,845
Other receivables	18,579	13,434
Total	$ 32,581	$ 27,279

There was no allowance for doubtful accounts as of December 31, 2015 and 2014.

4. CLEARING FUND

Clearing fund deposits. FICC's rules require its participants to maintain deposits in the Clearing Fund based on calculated requirements as determined by the Company. The deposits are available to secure participants' obligations and certain liabilities of the Company, should they occur. All participant cash deposits to the clearing fund are reflected as Clearing fund cash deposits on the accompanying Statements of Financial Condition.

A summary of the required and excess deposits held at December 31, 2015 and 2014 follows (in thousands):

	2015			2014		
	GS Division	MBS Division	Total	GS Division	MBS Division	Total
Required deposits	$ 8,076,283	$ 3,893,878	$ 11,970,161	$ 8,109,647	$ 3,509,823	$ 11,619,470
Excess deposits	2,795,034	750,432	3,545,466	3,491,256	1,102,294	4,593,550
Total deposits	$ 10,871,317	$ 4,644,310	$ 15,515,627	$ 11,600,903	$ 4,612,117	$ 16,213,020

A summary of the total deposits held at December 31, 2015 and 2014, including the excess of the calculated requirements follows (in thousands):

	2015			2014		
	GS Division	MBS Division	Total	GS Division	MBS Division	Total
Cash deposits	$ 4,850,476	$ 3,028,081	$ 7,878,557	$ 5,677,726	$ 2,961,220	$ 8,638,946
Investments in marketable securities	-	100,000	100,000	-	200,000	200,000
U.S. Treasury and Agency securities, at fair value	6,020,841	1,516,229	7,537,070	5,923,177	1,450,897	7,374,074
Total deposits	$ 10,871,317	$ 4,644,310	$ 15,515,627	$ 11,600,903	$ 4,612,117	$ 16,213,020

Cash Deposits and Investments in Marketable Securities. Cash deposits and investments in marketable securities to the Clearing Fund, which may be applied to satisfy obligations of the depositing participant, as provided in FICC rules, as of December 31, 2015 and 2014, were invested as follows (in thousands):

	2015	2014
Reverse repurchase agreements	$ 1,465,000	$ 2,700,000
Money market fund investments	4,793,000	4,288,000
Bank deposits	1,620,557	1,650,946
U.S. Treasury bills	100,000	200,000
Total	$ 7,978,557	$ 8,838,946

Refunds to participants. The total amounts of interest income the Company earned from the investment of cash deposits in the Clearing Fund were $9,591,000 and $6,297,000 for the years ended December 31, 2015 and 2014 and $4,644,000 and $1,818,000 for the three months ended December 31, 2015 and 2014, respectively in the accompanying Statements of Income.

5. OTHER ASSETS

Details for other assets as of December 31, 2015 and 2014 were as follows (in thousands):

	2015	2014
Taxes receivable	$ 5,795	$ -
Deferred tax assets, net	-	1,045
Total current assets	$ 5,795	$ 1,045

6. OTHER LIABILITIES

Details for other liabilities as of December 31, 2015 and 2014 were as follows (in thousands):

	2015	2014
Total Other current liabilities (taxes payable)	$ -	$ 1,144
Deferred tax liabilities, net	$ 2,313	1,864
Unrecognized tax benefits	3,957	3,547
Other liabilities	1,933	-
Total Non-current liabilities	$ 8,203	$ 5,411
Total	$ 8,203	$ 6,555

Unrecognized tax benefits ("UTBs"). FICC applies the provision of FASB ASC 740-10, Income Taxes, with respect to UTBs.

7. DEBT

The Company's borrowings as of December 31, 2015 and 2014, consisted of the following (in thousands):

	2015	2014
Loan payable to DTCC	$ 52,000	$ -

On May 1, 2015, the Company received a loan from DTCC, its parent, in the amount of $55 million, the outstanding balance of which was reduced to $52 million as of December 31, 2015. The loan is interest bearing and structured as a demand loan, having no fixed term. The proceeds of the loan supplement the Company's liquid financial resources pursuant to the SEC's proposed standards for covered clearing agencies. The amount of the loan may vary over time, depending upon the Company's regulatory capital requirements and its general funding needs.

Total Interest expense included in the accompanying Statements of Income for the years ended December 31, 2015 and 2014 was $551,000 and $0, respectively, and $203,000 and $0 for the three months ended December 31, 2015 and 2014, respectively.

The following table summarizes the interest rate, term and maturity of the loan payable as of December 31, 2015 and 2014 (in thousands):

				Outstanding Balance	
	Rate	Issue Date	Maturity	2015	2014
Loan payble to DTCC	LIBOR+ 1.30%	5/1/2015	On demand	$ 52,000	$ -

8. PENSION AND POST RETIREMENT BENEFITS

Eligible employees participate in DTCC's trusteed non-contributory defined benefit pension plan, supplemental executive retirement plan and benefit restoration plan, which provide for certain benefits upon retirement. Eligible employees also participate in DTCC's life insurance program, which provides for the payment of death benefits to beneficiaries of eligible retired employees, and DTCC's healthcare program, which provides benefits to eligible retired employees.

Cost allocation. DTCC allocates the cost of these plans to participating subsidiaries based primarily upon the proportion of each subsidiary's allocated salary cost to the aggregate salary cost of DTCC and its subsidiaries. At the close of business on December 31, 2015 and 2014, the benefit plan costs allocated to FICC were $2,070,000 and $1,759,000, respectively. These costs are included in Employee compensation and related benefits in the Company's Statements of Income.

9. SHAREHOLDERS' EQUITY

Common Stock. FICC has 105,000 authorized shares of common stock with a par value of $0.50 per share. As of December 31, 2015 and 2014, 20,400 shares of common stock were issued and outstanding.

On May 1, 2015, the Company received a capital contribution from DTCC, its parent, in the amount of $60 million. The proceeds of the capital contribution supplement the Company's capital and liquid financial resources pursuant to the SEC's proposed standards for covered clearing agencies.

10. COMMITMENTS AND CONTINGENCIES

Litigation. The Company was involved in legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such proceedings and litigation is not expected to have a material effect on the Company's financial position, operations, or cash flows.

11. GUARANTEES

FICC is comprised of the GS division and the MBS division. Through each division, FICC provides central counterparty (CCP) services, which includes clearing, settlement, and risk management services. In its capacity as a CCP, FICC guarantees the settlement of trades in the event a participant defaults. A participant default is defined in each division's rules. In its guarantor role, FICC has equal claims to and from participants on opposite sides of netted transactions. To cover its guarantee risk, FICC uses risk-based margining to collect cash and securities collateral through its Clearing Fund.

GSD is the leading provider of real-time trade matching, clearing, netting, risk management and settlement for trades in U.S. government debt, including repurchase agreements. Securities processed by GSD include Treasury bills, bonds, notes, zero-coupon securities, government agency securities, and inflation-indexed securities. The U.S. Government securities market is predominantly an over-the-counter market and most transactions are settled on a T+1 basis. Trades are guaranteed upon comparison. In January 2015, the SEC approved FICC's proposed rule change (SR-FICC-2014-11) that moved the timing for novation to the time the trade is guaranteed. This is effective in accordance with the GSD Rules and MBSD Rules.

FICC's guarantee of GSD net settlement positions may result in a potential liability to FICC. Guaranteed positions that have not yet settled are margined and collateralized twice-daily via the participants' Clearing Fund, and marked-to-market twice-daily with cash debited from or credited to the responsible participants through the funds-only settlement process. At December 31, 2015 and 2014, the aggregate amount of positions guaranteed by GSD equaled approximately $829.0 billion and $846.9 billion, respectively. There is an equal amount due to certain other GSD participants from FICC after consideration of deliveries pending to FICC. There were no defaults by participants to these obligations.

MBSD's netting system interposes FICC between MBSD participants for eligible trades that have been pool netted. The guarantee of settlement for pool netting eligible trades as well as to-be-announced (TBA) trades by FICC results in potential liability to FICC. Guaranteed positions that have not yet settled are margined, marked-to-market daily and collateralized via the participants' Clearing Fund. At December 31, 2015 and 2014, the net amount of guaranteed positions by MBSD which were scheduled to settle, approximated $244.7 billion and $286.3 billion, respectively. There were no defaults by participants to these obligations.

If a participant defaults, such participant's deposits to the applicable division's Clearing Fund would be used to satisfy any loss or liability incurred by FICC. If those funds are insufficient to cover the defaulting participant's outstanding obligations to FICC, FICC would then use any funds available from its multilateral netting contract and limited cross-guaranty agreement with DTC, NSCC and the Options Clearing Corporation (OCC) under which these clearing agencies have agreed to make payments to each other for any remaining unsatisfied obligations of a common defaulting participant to the extent that these clearing agencies have excess resources belonging to the defaulting participant.

In addition, with respect to GSD, FICC has entered into a cross-margining agreement with the Chicago Mercantile Exchange Inc. (CME). Under this agreement, FICC and CME would apply available amounts to each other under specified circumstances.

In the event that a loss or liability remains, FICC would satisfy this by utilizing up to 25% of its retained earnings, or such greater amount of retained earnings to be determined by the Board of Directors. If a loss or liability remains, the division will divide such obligation between "Tier 1" participants and "Tier 2" participants. Tier 2 participants (currently registered investment companies due to regulatory requirements applicable to such entities) will only be subject to such loss or liability to the extent they traded with the defaulting participant. Tier 1 participants will be allocated the loss or liability by assessing the required Clearing Fund deposit of each such participant in the amount of up to $50,000, equally. If a loss or liability remains, Tier 1 participants will be assessed ratably in accordance with the respective amounts of their required Clearing Fund deposit over the prior twelve months. GSD participants who act as inter-dealer brokers are limited to a loss allocation of $5 million per event in respect of their inter-dealer broker activity.

12. OFF BALANCE SHEET AND CONCENTRATION OF CREDIT RISK

Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty or an issuer of securities or other instruments held by the Company. The Company's exposure to credit risk comes primarily from clearing and settlement service operations. Credit risk also comes from financial assets, which consist principally of cash and cash equivalents, investments in marketable securities, accounts receivable, and the Clearing Fund.

Concentrations of credit risk may arise through having large connected individual exposures and significant exposures to groups of counterparties whose likelihood of default is driven by common underlying factors, including economic conditions affecting the securities industry and debt issuing countries.

Given FICC is a central counterparty, it is exposed to significant credit risk of third parties, including its customer base, which extends to companies within the global financial services industry. Customers are based in the United States and overseas and include participating brokers, dealers, institutional investors, banks, and other financial intermediaries — either directly or through correspondent relationships.

Cash and Cash Equivalents. The Company maintains cash and cash equivalents with various financial institutions. These financial institutions are located in various geographical regions, and the Company's policy is designed to limit exposure with any one institution. As part of its credit risk management processes, the Company performs periodic evaluations of the relative credit standing of the financial institutions with whom it places funds. The Company generally makes deposits with financial institutions having a credit rating of at least BBB+/Baa1 or better from recognized rating agencies and that are approved via its internal credit review process. The Company also monitors the condition of the financial institutions with whom it places funds on an ongoing basis to identify any significant change in a financial institution's condition. If such a change takes place, the amounts deposited in such financial institutions may be adjusted.

Marketable Securities. In addition to making investments in reverse repurchase agreements, money market funds and bank deposits, the Company also makes direct investments in U.S. Treasury securities. Credit risk related to marketable securities involves the risk of nonperformance by the counterparty, which could result in a material loss. To mitigate the risk of credit loss, the Company only makes investments in debt obligations of the U.S. government or those U.S. government agencies guaranteed by the U.S. government.

Accounts Receivable. Credit risk related to accounts receivable involves the risk of nonpayment by the counterparty. Credit risk is diversified due to the large number of participants comprising the Company's customer base. The Company also performs ongoing credit evaluations of the financial conditions of its customers and evaluates the delinquency status of the receivables.

Clearing Fund. In addition to risk management policies described above for cash and cash equivalents, when Participants provide cash deposits to the Clearing Fund, the Company may invest the cash in reverse repurchase agreements (reverse repos). The Company bears credit risk related to reverse repurchase agreements only to the extent cash advanced to the counterparty exceeds the value of collateral received. Securities purchased under reverse repos are generally U.S. Treasury and agency securities having minimal credit risk due to low probability of U.S. government default, coupled with the highly liquid nature of these securities. Reverse repo investments are secured; collateral must have a market value greater than or equal to 102% of the cash invested. Additionally, reverse repo investments are typically placed with financial institutions with a credit rating of BBB+/Baa1 or better from recognized rating agencies and are approved via the Company's credit review process. To avoid concentration of credit risk exposures, the Company sets credit limits for each counterparty.

Participant cash deposits may also be invested in money market mutual funds under Rule 2a-7 of the Investment Company Act of 1940 having a credit rating of AAA/Aaa from recognized rating agencies. Since the Company only invests in highly

rated money market mutual funds and cash is returned daily, the Company has minimal credit risk related to these investments.
FICC is exposed to credit risk on a daily basis. This risk arises at FICC as it guarantees certain obligations of its participants under specified circumstances. The Company provides risk management/mitigation by identifying, measuring and responding to these risks in order to protect the safety and soundness of the FICC settlement system. Various tools are utilized to mitigate these risks including, but not limited to: setting capital adequacy standards; assessing new applicants; performing continuous monitoring of Participants' financial condition; reviewing participants' daily trading activity and determining appropriate collateral requirements, maintaining the Clearing Fund; netting; marking unsettled trades to market; and utilizing a variety of advanced quantitative analytical methodologies, such as back and stress testing.

In order to become a participant at FICC, an applicant must meet minimum eligibility criteria (which are specified in the FICC's rules). All applicants to be FICC participants must provide FICC with certain financial and operational information. This information is reviewed to ensure the applicant has sufficient financial resources to make anticipated contributions to the Clearing Fund and to meet its obligations to FICC. The credit quality of the participant is evaluated at the time of application and monitored on an ongoing basis to determine if the participant continues to be financially stable and meet the financial requirements of membership. As part of its review, the Company utilizes an internal credit risk rating matrix to risk rate its bank and broker participants. The resulting rating determines the level of financial review to be performed on each participant and may impact their Clearing Fund requirements.

FICC collects Clearing Fund deposits from its participants using a risk-based margin methodology. The risk-based methodology enables the Company to identify the risks posed by a participant's unsettled portfolio and to quickly adjust and collect additional deposits as needed to cover those risks. At multiple times during the day, Clearing Fund requirements are calculated for each participant based on their then-current unsettled and pending transactions. Security pricing is updated on an intraday basis and additional charges may be collected to cover significant price movements from those participants with a significant exposure in the identified security. The Company monitors participants' overall trading activities throughout the trading day to determine whether exposures exist that would require special actions to increase their Clearing Fund deposits.

The Company regularly performs back and stress testing of the quality and accuracy of its risk management systems to ensure the adequacy of Clearing Fund requirements and to respond to other risk factors that the tests may reveal.

The Company also limits its exposure to potential losses from default by participants through its multilateral netting contract and limited cross-guaranty agreement with DTC, NSCC and the OCC. These arrangements are designed to provide a mechanism for the sharing of excess net collateral resources of a common defaulting participant held at one clearing agency to cover losses incurred at another.

13. OTHER MATTERS

Lehman Brothers Inc. On September 19, 2008, a Trustee was appointed, under the Securities Investor Protection Act (SIPA), to administer and liquidate the business of Lehman Brothers Inc. (LBI). As part of the liquidation of LBI, certain of its assets were sold to Barclays Capital Inc. ("Barclays"), which assets did not, however, include the accounts that LBI maintained at NSCC, FICC, and DTC.

As a result, the Trustee, Barclays, and DTCC, on behalf and for the benefit of NSCC, FICC, and DTC (collectively, the "Clearing Agency Subsidiaries"), entered into an agreement that provided for the Clearing Agency Subsidiaries to wind down their respective LBI accounts, including the close out of pending transactions and the use of the proceeds in accordance with their respective rules and procedures, in the same manner in which they close out positions of Participants for whom they cease to act. On September 24, 2008, the Clearing Agency Subsidiaries formally ceased to act for LBI.

In addition, Barclays agreed to guaranty, indemnify, and hold harmless DTCC, each of NSCC, FICC, and DTC, and their officers, directors, employees, owners, agents, and representatives against any and all losses, claims, damages, expenses (including legal fees), or liabilities that any of them may incur as a result of winding down and closing out the respective accounts. The guaranty is limited to a $250,000,000 and a cash deposit (the "Cash Deposit") was provided for that purpose.

Any losses will first be satisfied from the Cash Deposit. If there are losses in excess of the Cash Deposit, they will be satisfied in accordance with the rules and procedures of NSCC, FICC and DTC, respectively (including through application of LBI's Clearing or Participant Fund deposits and any Clearing Agency cross guaranty agreements). If any portion of such funds remains after the close out of the LBI Accounts and satisfaction of all obligations of NSCC, FICC, and DTC, they will be remitted to the Trustee. The Cash Deposit is held at DTCC to facilitate its investment pending application against losses or its turnover to the Trustee.

With respect to LBI, DTCC and its subsidiaries held the following deposits/balances on December 31 2015 and 2014:

	2015	**2014**
Segregated cash	$ 3,301,827	$ 4,101,862
Participant and clearing funds	1,160,135	1,160,135
Matured money market investment accounts	31,133,201	30,644,008
Total	$ 35,595,163	$ 35,906,005

At December 31, 2015 and 2014, DTCC had delivered to the Trustee of the LBI estate $5,154,013,000 and $5,153,238,000, in cash, respectively, as well as Clearing fund securities valued at $159,479,000.

MF Global Inc. On October 31, 2011, a Trustee was appointed, under the SIPA, to administer and liquidate the business of MF Global Inc. (MFG). As part of the liquidation of MFG, any losses will first be satisfied in accordance with the rules and procedures of NSCC, FICC and DTC, respectively (including through application of MFG's Clearing or Participant Fund deposits and any clearing agency cross guaranty agreements). If any portion of such funds remains after the close out of the MFG accounts and satisfaction of all obligations of NSCC, FICC, and DTC, they will be remitted to the Trustee. In January 2016, the Company signed an agreement to remit the remaining funds to the Trustee to complete the liquidation of the business of MFG.

With respect to MFG, DTCC and its subsidiaries held the following deposits/balances on December 31, 2015 and 2014:

	2015	**2014**
Total participant and clearing funds	$ 1,987,406	$ 1,987,406

As of December 31, 2015, DTCC had delivered cash to the Trustee of the MFG estate totaling $254,298,000.

Management does not expect there will be any losses attributable to the liquidation of the LBI or MFG accounts to be assessed against either its retained earnings or participants.

14. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after December 31, 2015 through February 26, 2016, for potential recognition or disclosure in these financial statements. Other than as disclosed in Note 13., no events or transactions occurred during such period that would require recognition or disclosure in these financial statements.